REPORT ON THE COMPANY’S BUSINESS OPERATIONS AND THE STATE OF ITS ASSETS IN THE YEAR 2012

Dear Shareholders, Ladies and Gentlemen,

Allow me to present to you the most important performance results of ČEZ a. s. over the past year and its plans for the future. The results I will first talk about are consolidated for ČEZ, a. s., its subsidiaries and other companies it owns. The report was compiled based on facts known as of March 31, 2013.

See figure 1 “CEZ Group remains one of the least indebted energy enterprises in Europe” in Annex 1 “Report on the Company’s business operations and the state of its assets in the year 2012 of ČEZ, a. s.” (hereinafter the Annex)

In 2012, the European energy sector was heavily impacted not only by the financial and economic uncertainty in Europe, but also by developments in the regulatory environment, especially in the area of the support for renewable resources and lack of clarity regarding future plans to reduce greenhouse gas emissions in 2013 to 2020. We were also still affected by the political consequences of the accident in Fukushima, Japan, due to natural disaster in 2011, which has prompted responses such as stress testing nuclear power plants operated in countries of the European Union and the immediate shutdown of a part of nuclear capacities in neighbouring Germany. While in January and February 2012 the price of the annual forward contract for EEX electricity with supply in 2013 did increase by more than 2 EUR/MWh, up to 54.3 EUR/MWh, we nonetheless then experienced a setback and all commodities more or less continued to fall for the rest of the year. In the case of the above mentioned forward contract for EEX electricity for 2013, the loss amounted to more than 9 EUR/MWh, which led to a price of 45 EUR/MWh. Electricity prices traded in the course of 2012 on the spot market remained low, especially in the first half of the year, except for the sudden upward jump attributable to extremely cold weather; a moderate increase was experienced in the second half of the year. At the end of 2012, during the Christmas holidays, electricity was paradoxically traded for negative prices, which was related to the above-average warm weather and higher generation of electricity from renewable resources. I should remind you that forward prices in particular are important for ČEZ, which sells most electricity one or more years in advance. By contrast, prices on the spot market have no such impact on the performance of ČEZ - we sell just a marginal portion of our production in this way.

Low electricity prices were associated not only with low prices for other commodities, but especially with prices of greenhouse gas emission allowances. The market in emission allowances was influenced by a discussion on the method of their assignment in the third allocation period. The forward contract price with the allowance supplied in December 2012 rose to 9.5 EUR/t in February. In the following months however, it fluctuated at about 6–8 EUR/t, until November’s announcement of the European Union’s proposal to withdraw 900 million emission allowances from the trading system. This led to a rapid price decline in allowances, since markets interpreted this volume as insufficient. The downward trend in prices was also exhibited in European coal, where the availability of inexpensive imports of black coal - facilitated by the boom in shale gas extraction in the United States of America - played an important role.

In 2012, the CEZ Group fared well compared to the competition: so far it has managed to adapt to the negative trends in the energy industry. It remains, therefore, one of the least indebted European energy companies and enjoys good financial health. Thanks to the conservative financial policy adopted in the past, it was not forced, unlike many other European competitors, to conduct extensive sales of assets or significantly reduce its workforce. The strong financial stability of the CEZ Group is also recognized by international rating agencies and other global rankings. ČEZ is one of the few European energy companies that maintained its previous rating in 2012. In April 2012, Moody’s rating agency confirmed its A2 rating with a stable outlook, and subsequently in January 2013 Standard & Poor’s confirmed its A- rating, also with a stable outlook. According to rankings of the information provider Platts TOP 250, in the energy sector in the European, Middle East, and Africa regions, for example, ČEZ improved its standing compared to the previous year by three places, taking fourth place. Worldwide, it remains in seventh place. Just as in previous years, Deloitte’s CE TOP 500 ranking rates ČEZ in the power engineering industry of Central Europe as the most valuable company.

I believe that these ratings reflect our far-sighted financial strategy. One of our responses to unfavourable economic developments and worsening economic conditions was to pursue a series of countermeasures to stabilize and reduce the risk profile of the CEZ Group. With respect to the persistent risk of further decline in power electricity prices, we are diversifying the structure of our assets by taking business opportunities in price-regulated fields. In sales and trading, we are fixing the margin by selling larger electricity volumes several years in advance. This includes long-term contracts, through which we are selling electricity up to 2020. We are expanding the sale of natural gas and rolling out new products to the market. We also endeavour to reduce costs, whereby emphasis is given to improving internal efficiency and centralizing selected activities.

Dear shareholders, let's now examine the actual figures and discuss the financial results.

The financial results of the CEZ Group in 2012 fell in line with the expectations of most analysts, although they were slightly below the initial expectations of ČEZ due to the bleak situation in the European energy industry.

See figure 2 "Despite Albania, we achieved good results in 2012" in the Annex

Earnings before interest, tax, depreciation and amortisation – EBITDA – reached CZK 85.5 billion, which is a year-on-year decline of CZK 1.8 billion, i.e. 2.1 %. The Group was successful in practically all areas of its operation, except for Albania, where the distribution company of the CEZ Group was forced to sustain high losses, based on the unprecedented decision of the Albanian regulatory authority from December 2011 to rapidly increase purchase prices of electricity. The economic result was positively impacted, on the other hand, especially by higher revenues from the sale of electricity, the sale of heat – mainly due to acquisition of Energotrans – and revenues from the sale of natural gas. The decline in operating results was, in contrast, influenced by revenues and expenses in the area of greenhouse gas emission allowances, credits and certificates, and by lower gains from commodity derivate trading, caused by the year-on-year decline in market prices of electricity and emission allowances.

Net income was CZK 40.2 billion, which means a slight year-on-year decline of CZK 0.6 billion, i.e. of 1.5 %. This drop was lower than in the case of operating profit. The decline in particular resulted from a lower gift tax from greenhouse gas emission allowances - reduced by CZK 1.8 billion - due to a lower price of allowances and the impact of the accounting settlement of the JTSD/MIBRAG transaction in 2011, which affected profit by + CZK 2.8 billion in the year-on-year comparison. On the contrary, year-on-year comparison was influenced negatively by the extraordinary gains from financial derivates and foreign exchange rate gains in 2011.

See figure 3 "CEZ Group financial results" in the Annex

As at December 31, 2012, consolidated assets of the CEZ Group amounted to CZK 636.1 billion, while return on assets (ROA) reached 6.7 % and return on equity (ROE) reached 17.4 %. Return on invested capital reached 10.9 %.

Dear shareholders, before I present the financial results in detail, please allow me to make a few comments about their reporting structure.

The results of the CEZ Group are kept by segments into which the Group is divided, both in terms of territory in Central Europe and Southeast Europe, and in terms of sector, which includes the entire value chain from the mining, generation and trading of electricity through to its distribution and sale. The sector segments also include gas trade and its sale to end customers, as well as trading in other commodities. Other important activities, in particular auxiliary activities such as IT and TELCO services, asset management, logistics and others, are kept separately.

See figure 4 "EBITDA breakdown by individual segments in 2012" in the Annex

As tradition dictates, the largest share in the total earnings before interest, tax, depreciation and amortisation – EBITDA – was attributable to the Power Production & Trading Segment Central Europe, which is primarily comprised of generating electricity in the Czech Republic and Poland, and trading in electricity and other commodities. The annual contribution of CZK 56.9 billion represented a year-on-year increase of 2.1 %. These results were driven by the higher volume of electricity generated in the Czech Republic, especially in nuclear power plants. The increase of realization prices, caused mainly by the CZK/EUR hedging exchange rate, had even greater impact. In addition, the acquisition of Energotrans into the CEZ Group at the end of June 2012 proved positive.

The upward trend for year-on-year results was also reported in the Production & Trading Segment of Southeast Europe, which increased by 19 % and thus contributed to the total EBITDA by CZK 2.7 billion. This was mainly thanks to increased production in the Fântânele and Cogealac wind farms in Romania, and reflected the completion of all 240 turbines. Year-on-year generation gain on the other hand declined in Bulgaria, where the power plant in Varna cut back production due to lower demand on the regulated market.

Distribution & Sale Central Europe showed very good results; its EBITDA contribution to the CEZ Group was CZK 17.6 billion. Its year-on-year increase was up by CZK 1.6 billion. While it should be noted in an annual comparison that the volume of electricity distributed to end customers in the Czech Republic increased by 0.2 TWh, the increasing cost of the statutory buyout of electricity generated from renewable resources nevertheless reduced the year-on-year profit in the area of distribution. In contrast, the CEZ Group did extremely well in sales, where we increased EBITDA by CZK 2.9 billion y-o-y. Lower purchase prices of electricity and the positive influence of settling a volume of unbilled electricity were followed by an increased number of natural gas customers, which led to an increase of CZK 2.3 billion in the Czech Republic. The company ČEZ Prodej established itself in first place among alternative natural gas suppliers in the Czech Republic when it increased the number of connection points served by 86 % compared with 2011. Subsidiaries in Hungary, Poland, and Slovakia operating on electricity and gas markets for which the CEZ Group does not have its own distribution company, also contribute to the results of this segment. We won most customers in Slovakia, where we have been selling electricity and natural gas to households and small and medium companies since 2011. In 2011 and 2012 in Slovakia almost 90 thousand customers chose the CEZ Group as their energy supplier. We also receive from these customers a higher margin from electricity sales and thus higher sales profits.

In the Czech Republic, approximately 47 active electricity suppliers now offer their products to end costumers on the retail market. They form a very competitive environment and therefore the struggle for customers is becoming increasingly critical. Changing to electricity suppliers began to appear widespread in 2009, and has increased from year to year. This trend also continued during 2012, although the rate of massive increase in switching suppliers has now stopped. A total of 473,128 consumers at all voltage levels have changed their electricity supplier, which represents approximately 8.3 % of connection points. The company ČEZ Prodej retained its 35.5 % share of end customers, and is the leader in all customer segments.

Unfortunately, the impact of the Distribution & Sales segment in Southeast Europe on total EBITDA was highly negative, with a CZK 1.8 billion loss. This was caused by developments in ČEZ investments in Albania. Due to an unprecedented decision of the Albanian regulatory authority from the end of 2011, purchase prices almost doubled without being adequately reflected in end prices. This decision, together with other measures taken by Albanian institutions, caused liquidity problems precipitating a critical financial situation and insolvency. The total loss of the distribution company in Albania in 2012 reached CZK 5.8 billion.

In contrast, other parts of this segment, which include sales and distribution of electricity in Bulgaria and Romania, brought positive results and achieved a higher year-on-year margin. In addition, we were able to arrange for an extraordinary settlement of all overdue obligations due on the part of Romanian state railways.

The Mining Central Europe segment contributed CZK 4.4 billion to total EBITDA. The year-on-year decline of CZK 0.4 billion, i.e. 8.4 %, was caused by production cutbacks in coal power plants of the CEZ Group in 2012. Due to the warmer winter season, coal demand from external customers was also lower. After record-breaking extraction in 2011, the volume of coal sold dropped by 2.3 million tons, of which 1.2 million tons represented a decrease in consumption of CEZ Group power plants, and 1.1 million tons the lower demand from external customers.

Dear shareholders, in the following section, which is no longer divided according to segment, allow me to guide you through the Balance Sheet and Cash Flow for the CEZ Group.

See figure 5 "CEZ Group assets and liabilities as of 31 December" in the Annex

The CEZ Group's consolidated assets grew year-on-year by CZK 37.8 billion to CZK 636.1 billion. The value of fixed tangible assets, incl. nuclear fuel and construction work in progress increased by CZK 33.0 billion, primarily in connection with the growth of fixed tangible assets in the area of investments and acquisitions. The largest investments included the renewal of ČEZ, a. s. production facilities, investments into the distribution system, and the construction of wind farms in Romania. Other non-current assets experienced a decline of more than CZK 5 billion. This was mainly as a result of the year-on-year fall in Investments and other financial assets by CZK 13.4 billion, and due to a decrease in the value of available-for-sale securities. On the other hand, the value of non-current intangible assets increased by CZK 5.1 billion. Year-on-year changes in these categories were mainly associated with the acquisition of the company Energotrans. Also, investments in associates and joint ventures increased in value, in particular through expanded shares in Turkish companies. Current assets increased year-on-year by CZK 10.2 billion.

Equity, including non-controlling interests increased year-on-year to CZK 254.2 billion. Net income generated in 2012 increased equity by CZK 40.2 billion, while dividends declared reduced equity by CZK 24.0 billion. Long-term liabilities grew by CZK 17.4 billion to a total of CZK 241.1 billion. This was mainly due to the increase in issued bonds, the value of which reached CZK 155.5 billion as of December 31, 2012, i.e. a year-on-year growth of CZK 4.4 billion. The sum of long-term loans at the end of 2012 was CZK 32.6 billion, not much different therefore to the end of 2011.

In 2012, the CEZ Group required most financial resources to implement its investment program and pay dividends. In 2012, the CEZ Group settled the acquisition of Energotrans and the sale of its share in MIBRAG. Both transactions had limited impact on liquidity in 2012, since the investment by the CEZ Group into the company Pražská teplárenská, realized and settled in 2009, was set against the purchase price of Energotrans.

In the course of 2012, ČEZ made eight issues, including two important issues on the capital market in the USA. These were bonds issued in April 2012 in the amount of USD 700 million with a 10-year maturity, and bonds in the amount of USD 300 million with a 30-year maturity. The total value of these two issues thus represents approximately CZK 18.4 billion. It was not only the first Czech but the first ever regional issue of this kind among corporate issues on the dollar market under the regulation 144A of the 1933 Securities Act of the United States of America. Morevover, the 300 million dollars issue had the longest maturity in the region of Central and Eastern Europe made under the demanding conditions of the most liquid global bond market, and the interest rates achieved were close to the level of the most credible Western European energy corporations. ČEZ thus succeeded in establishing itself on a market the liquidity of which may well secure the financing of future needs - even in the case of problems in the Eurozone. Together with other issues with long-term maturity, issuing activity in 2012 contributed significantly to extending the average maturity date of debts of the ČEZ Group.

In May 2012, another in a series of contracts was signed with the European Investment Bank to finance capital expenditures in the Czech distribution grid in the volume of approximately CZK 2.5 billion; in October, bank credit was partially refinanced in the amount of approximately CZK 3.7 billion.

After losing control in the company CEZ Shpërndarje in Albania – I will talk about the circumstances later on - ČEZ repaid liabilities of this company in the amount of CZK 0.9 billion against the International Financial Corporation and the European Bank for Reconstruction and Development in February 2013. These liabilities resulted from the credit contract concluded between these two banks and CEZ Shpërndarje in June 2011, and by virtue of a written arrangement between ČEZ, a. s. and both banks concluded in July 2012. Both banks subsequently also cancelled the option to draw the unused credit limit that was originally established by the aforementioned contract.

See figure 6 "CEZ Group cash flow overview" in the Annex

Compared to 2011, net cash flow from operating activities increased by CZK 2.8 billion, to a total of CZK 64.6 billion. This was mainly due to changes in working capital, which were related primarily to the faster growth of receivables than liabilities, including accrued unbilled electricity. Other factors included the growth of the emission allowance balance and of supplies, including fossil fuels. A slight increase was experienced in the volume of funds used for investment activities, where higher investment into subsidiaries and joint ventures played a major positive role. Funds used for financial activities, including the net effect of currency translations in cash, experienced a year-on-year increase of CZK 6.6 billion. In 2012, the balance of the loans drawn and repaid was lower by CZK 9.9 billion year-on-year. The volume of dividend payments was CZK 2.7 billion lower year-on-year.

Dear shareholders, I would now like to take a brief look at the financial results concerning ČEZ a. s. company only, and the proposal for dividends to be paid for 2012.

See figure 7 "ČEZ, a. s. financial performance" in the Annex

The joint-stock company ČEZ, as the parent company of the entire Group, reported a decline in its net profits of CZK 2.0 billion in 2012. Operating income before depreciation and amortization declined by CZK 1.2 billion, i.e. 2.4 %, when operating revenues declined by CZK 5.3 billion, mainly due to lower revenues from sales of electricity and lower gains from derivate trading with electricity, coal and gas. Operating costs including depreciation also fell; their total decline reached CZK 3.7 billion, mainly due to lower electricity purchase costs and lower coal consumption. Negative impacts were felt, however, as a result of the higher cost of emission allowances and lower dividends received, which fell by CZK 0.9 billion year-on-year.

See figure 8 "Proposed dividend payment by ČEZ, a. s. for 2012" in the Annex

In recent years, the dividend paid to you, our shareholders, has corresponded to the aims of our dividend policy of dividing between 50 to 60 % of the consolidated profit among you. The board of directors of ČEZ is again respecting this aim this year, and proposes a dividend payment in the amount of CZK 40 per share. This amounts to 54 % of the consolidated net income achieved by the CEZ Group. Dear shareholders, the actual amount of the paid dividend for 2012 will depend on your decision.

In the following section, I will inform you about the investment projects at our power plants in the Czech Republic in 2012, where I will give extra emphasis on our nuclear portfolio.

As part of the project to complete the Temelín Nuclear Power Station, the evaluation process of applicants' bids for the construction of Units 3 and 4 took place throughout the second half of the year. All three qualified applicants submitted their bids, drawn up according to the tender documentation from October 2011, by the scheduled date of July 2, 2012. Due to the failure to meet the statutory and business requirements of a public tender, the bid of the French applicant AREVA was withdrawn from the subsequent evaluation process on October 5, 2012. Two tenderers therefore remain in contention for the tender: the Czech-Russian consortium MIR 1200, and the American-Japanese Westinghouse. Preparation of the authorization and licensing process also continued. In December 2012, the State Office for Nuclear Safety was presented with a request for the location of a nuclear facility. An important milestone was reached in the process of evaluating the impacts of the development of new units on the environment. We

also organized public discussions with our neighbours in the Federal Republic of Germany and Republic of Austria; public negotiation in the Czech Republic took place on June 22, 2012.
In January 2013, the Ministry of the Environment of the Czech Republic published in line with the international EIA process its assent regarding the evaluation of the impacts of implementing the project "New nuclear resource in the locality of Temelín, including output power for the distribution plant Kočín" on the environment.

In existing nuclear power plants, one of the most important events was the rebuilding of the equipment associated with the installed capacity increase of unit 2 of the Dukovany Nuclear Power Station to 510 MW. With this last unit, the process of increasing the capacities of the four units of this power plant from the original 440 MW was successfully completed. Both nuclear plants - Dukovany and Temelín – achieved record-breaking electricity generation in 2012. This was achieved in part by reliable operation and a progressive reduction in downtimes, and, in case of Dukovany, the aforementioned capacity increase. At the Temelín Nuclear Power Station we accomplished the fuel replacement process in 2010 and 2011; in 2012, both units were operated using only TVSA-T fuel. Operating results confirmed that the fuel is perfectly satisfactory and enables fuel reloading operations during downtimes to be accelerated. In future years, this new fuel should also enable an increase in capacity of units of the Temelín Nuclear Power Plant.

In the area of nuclear safety, the evaluation of the results of stress tests, which both our nuclear power plants had to undergo in 2011, continued. These tests were arranged by member states of the European Union following the accident at the Japanese nuclear power plant at Fukushima. In the first stage, analyses were made and reports were processed by the operator of nuclear power plants, i.e. ČEZ. They were subsequently reviewed by the State Office for Nuclear Safety, whereupon a National Report was compiled, which was reviewed by international experts. The third step of the entire process was the partners' evaluation of National Reports by experts from member states of the European Union and some other countries, part of which included groups of experts visiting the plants at Dukovany and Temelín. The results of this extensive evaluation did not show any fundamental deficiencies of either power plant, in terms of the selected aspects of nuclear safety, which would require immediate measures. Also, the ability of both power plants to withstand any projected accidents and the suitability of their chosen locations were confirmed. Part of this evaluation of nuclear power plants includes a suggestion to take further measures to increase the safety of their operation.

The year 2012 also brought many significant events within the renewal of coal-fired power plants in the Czech Republic. At the Tušimice II power plant, the second stage of the comprehensive renewal was completed, and a warranty operation on units 21 and 22 was carried out. For the comprehensive renewal of the Prunéřov II power plant, all necessary permits were obtained and the investment operation started on September 1, 2012. Construction works and assembly works on processing equipment continued in the development of a new power station at Ledvice Power Station; the anticipated completion date is set for December 31, 2014 to take into account the delay in the boiler room delivery. Completion of the steam-gas power plant at Počerady rapidly draws near; we anticipate its commissioning in the second half of 2013.

See figure 9 "CEZ Group electricity generation" in the Annex

In 2012, the ČEZ Group provided electricity generation in the volume 68.8 TWh, lower by 0.4 TWh year-on-year. Meanwhile, the generation in the Czech Republic of 64.0 TWh was higher by 714 GWh, i.e. 1.1 %, compared with 2011. Generation in the most cost–effective nuclear power plants increased significantly, whereas generation in coal-fired power plants by contrast declined, also in relation to launching the comprehensive renewal of three units of the Prunéřov II power plant. Generation of the coal-fired power plant in Varna also dropped as a result of lower demand on the regulated market in Bulgaria. Poland is experiencing increased biomass consumption; it comprised almost 23 % in the fuel mix of our Polish power plants in 2012. Biomass was fully responsible for the growth in generation, and Polish power plants of the CEZ Group generated in total 66 % more electricity from biomass year-on-year.

More favourable precipitation conditions led to increased electricity generation by hydroelectric plants in the Czech Republic; the generation increase which had seemed likely in Romanian hydroelectric plants was interrupted by their shutdown prior to planned renewal. Completion of the whole wind farms Fântânele and Cogealac made it possible to achieve year-on-year increase in their generation by 56 %.

According to our expectations, in 2013 the CEZ Group should provide generation of 66.2 TWh. Compared to 2012, it would mean a drop of 2.6 TWh, the main cause of which would be the ongoing comprehensive renewal of three units of the Prunéřov II power plant.

The agreement on fuel supply with Czech Coal was an important milestone for the generation portfolio and fuel provision in the Czech Republic. The long-term contract concluded with the company Vršanská uhelná from the Czech Coal Group has ensured the provision of coal for Počerady power plant, with prospects for the long-term security of supply. This is an important stabilizing factor for the CEZ Group. Security and stability are incredibly hard to come by in today's energy industry.

In March 2013, an important development occurred in the investigation by the European Commission started in November 2009 into ČEZ and Severočeské doly. Let me remind you that it concerned the alleged abuse of dominant position and obstructing competitors from entering the wholesale market for electricity generation. In June 2012, ČEZ submitted a commitments proposal to the European Commission, by which it committed to sell one of its coal-fired power plants. The investigation could then be terminated, provided the Commission found these commitments sufficient to strengthen competition on the market. This method of terminating proceedings is referred to as a settlement agreement, and represents standard practice in the area of EU competition law. This way it is possible to avoid a long and costly demonstration of the fact that the subject did not commit such anti-competitive conduct. Simultaneously, ČEZ dealt with the problem of how to provide a sufficient volume of coal for all its power plants, and decided to invest in developing and modernizing those of its power plants which have coal provided from the Company's own resources or based on long-term contracts. The intersection of both these aforementioned interests culminated in the signing of a contract for the sale of the Chvaletice power plant to the company Litvínovská uhelná in March 2013.

We will now take a look at the current news on foreign markets where the CEZ Group operated in 2012.

See figure 10 "CEZ Group in Europe" in the Annex

In 2012, the CEZ Group fulfilled its strategy for operating on these markets. It focused on countries in which it had already been operating, and on renewable energy resources. It withdrew from the German market, in which it kept its share in the mining and electric company MIBRAG until the middle of 2012.

In Poland, the CEZ Group has developed projects dealing with generation from renewable energy resources. At the Skawina power plant, it continued investing in the biomass milling facilities, and a small hydroelectric plant, Borek Szlachecki, is being developed nearby. In the north of the country, a portfolio of projects for wind farms is being prepared with an anticipated start of development in 2014.

In Romania, construction of the Fântânele and Cogealac Wind Farm was finished, making it the largest onshore facility of its kind in Europe. The last of the 240 turbines was connected in November. In 2012, both farms supplied nearly 1 TWh of electricity to the network. In July, turbines of the small hydroelectric plants in Reşița were shut down. Modernization to increase the installed capacity has commenced.

In neighbouring Bulgaria, the CEZ Group then opened a photovoltaic power plant in Oreshets, and is considering whether to develop a biomass power plant at Etropole in 2013.

In Turkey, all the hydroelectric plants previously under construction - Feke I, Gökkaya, and Himmetli - were completed and launched successfully, which increased installed capacity by 84 MW; a total of 366 MW of hydro power plants were already in operation in 2012. Development of the new steam-gas power plant in Egemer, with a total installed capacity of 872 MW, also continued according to the time schedule. Its commissioning is planned for the second half of 2014. At the turn of the year, the distribution and sales company Sedaş was unbundled; electricity sales were shifted to a newly founded company called Sepaş.

The activities of the CEZ Group in Albania in 2012 were influenced by developments in this country. Albania's economic growth has been seriously hampered by the European debt crisis since 2011, and the energy sector was additionally profoundly impacted by a long period of drought. This significantly limited electricity generation from water resources, and the high prices of imported electricity combined with the low solvency of citizens and business entities caused dramatic liquidity problems for the entire energy sector in Albania.

In December 2011 as part of its decision on tariffs, the Albanian regulatory authority took an unprecedented step for the period 2012-2014. It raised the regulated prices to buy electricity for the company CEZ Shpërndarje by 91 %, but did not correspondingly raise regulated prices for end customers. In spite of repeated calls from ČEZ, the Albanian regulatory authority did not take any action in 2012 to avert the distribution company CEZ Shpërndarje's inability to meet its licence obligations, or to avert its inability to cover its commitments. Only under the influence of the deepening energy crisis in the country did the Albanian side begin to negotiate at the end of 2012 the exit of CEZ Group from the country. Simultaneously, it also started proceedings to suspend the distribution licence on account of an alleged failure to meet licence conditions. On 21 January 2013, the regulatory authority in Albania decided to suspend licences for the distribution and sale of electricity to tariff customers of CEZ Shpërndarje, and appointed a so-called administrator who took over its administration and the exercise of shareholders' rights belonging to ČEZ. This resulted in loss of control and the elimination of CEZ Shpërndarje from the consolidated CEZ Group, and the de facto termination of the business activities of the CEZ Group in Albania. In seeking to protect its shareholders, ČEZ appealed against the appointment of the administrator and officially informed the government of the Republic of Albania on February 7, 2013 of its intent to launch international arbitration proceedings to protect its investments.

We are also facing problems in other subsidiaries of the CEZ Group - in Bulgaria. Long-term structural problems of the Bulgarian economy, the low standard of living of its citizens, and the increasing stress placed on citizens and companies on account of subsidized renewable electricity resources came to a head in massive political protests at the beginning of 2013. The flashpoint was the receipt of December's electricity bills. These bills reflected not only a relatively colder December and a longer reading period due to the Christmas holidays, but in particular the increasing subsidy given to renewable sources of electricity. No doubt you are well aware of the consequences from press reports; this was followed by the collapse of the Bulgarian government and the pressure from Bulgarian institutions and political representatives on energy prices and the energy regulator. This enormous political pressure, which capital participations of the CEZ Group came under, led to the launch of proceedings to suspend the licences of the distribution and sales company in February 2013. The CEZ Group fundamentally rejects the accusations made, let alone their legitimacy in connection with the proceedings on the suspension of licences in question. All obligations associated with holding the licences have been met by the CEZ Group within the intentions defined by the energy regulator in Bulgaria. The Bulgarian parliament furthermore passed a bill in February that enables electricity prices to be changed at any time during the regulatory period. The regulatory authority took immediate advantage of this opportunity and reduced electricity prices for households by 7.17 % in the distribution region of CEZ Razpredelenie Bulgaria for the period from March 5, 2013 to June 30, 2013.

We have had enough of bad news, now, so let's instead talk about what we expect in 2013.

See figure 11 "In 2013, we expect EBITDA of about CZK 80 billion and net income of about CZK 37 billion" in the Annex

According to the facts known as of March 31, 2013, we expect earnings before interest, tax, depreciation and amortisation – EBITDA – to reach CZK 80 billion, which would represent a year-on-year decline of 6 %.

In terms of net income, we foresee a result of about CZK 37 billion, which is a year-on-year decline of 8 %.

Perhaps this does not look like good news at first sight! We must, however, realize that these expectations reflect persistent unfavourable developments on the European energy markets. In particular, I am referring to the constantly decreasing electricity prices and the lower allocation and obligation to buy part of the emission allowances for production on the market, but also to the decline in production in the Czech Republic associated with the comprehensive renewal of the Prunéřov power plant and with the deployment of power plants due to structural changes in coal supplies.

Other factors in the year-on-year decline in profits include the fall in the CZK/EUR hedging exchange rate and the extremely positive impacts achieved in 2012. We do not expect any recurrence of extraordinary profits, such as the extraordinary profits acquired from trading or the extraordinary settlement of the liabilities of the Romanian state railways. In connection with the ongoing extensive investment program, we also expect a year-on-year growth of depreciation.

Being more upbeat, there are positive anticipated impacts; these especially include terminating our operation in Albania in January 2013, production growth in the finished wind farms in Romania, and also the impact of corrective factors on distribution in the Czech Republic, by which the regulatory authority in the course of two years makes provision for differences between achieved and permitted returns and the electricity distribution costs.

We regard in particular the development of national regulatory conditions in Southeast Europe to pose a significant risk to the aforementioned 2013 forecast. Another risk also lies in the development of European regulations for the energy industry – mainly in the area of renewables subsidy and the emission allowance system. Other factors potentially jeopardizing the forecast are a further deepening of the debt crisis and a subsequent economic slowdown in Europe.

On the other hand, our prediction may be positively influenced by the new agreement (reached after calculating the forecast) on fuel supplies for coal resources in the Czech Republic and the possible divestment of selected production assets.

In 2013, we expect total investments of the CEZ Group to reach CZK 52 billion, of which more than 60 % we plan to invest in generation facilities. In terms of cash flow in 2013, we expect to cover planned investment and financial expenses, including dividends, almost entirely from the cash flow generated by our own operating activities.

Dear shareholders, I believe that the CEZ Group will achieve results this year that will compare favourably with European competitors and provide conditions for increasing the future value of the assets we manage.

Thank you for your attention and your interest in the development of the company ČEZ.

Annex 1

Report on the Company's business operations and the state of its assets in the year 2012 of ČEZ, a. s.